

FOWLERVILLE COMMUNITY SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

August 2, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fowlerville Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fowlerville Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Fowlerville Community Schools as of June 30, 2006 and the respective changes in financial position, thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Fowlerville Community Schools

August 2, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2006 of Fowlerville Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi and xii and 28, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fowlerville Community Schools' basic financial statements. The additional information on pages 30 through 50 is presented for purposes of additional analysis and are not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Fowlerville Community Schools' (FCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District's general fund financial situation remained stable from the 2005 fiscal year to 2006.

Total District revenues exceeded \$30.9 million with spending around \$31.2 million; total District expenses exceeded revenues by approximately \$289,000. The District continues to participate in the school bond loan fund, borrowing for debt repayment while keeping the debt millage at 8.34 mills.

The decrease in the fund balance is primarily due to the increase in diesel fuel and natural gas. The student blended count for 2005-2006 was 3,183.

The District's general fund is funded primarily with a \$6,875 per pupil State of Michigan Foundation allowance. 85% of the general fund revenue comes from the State sources.

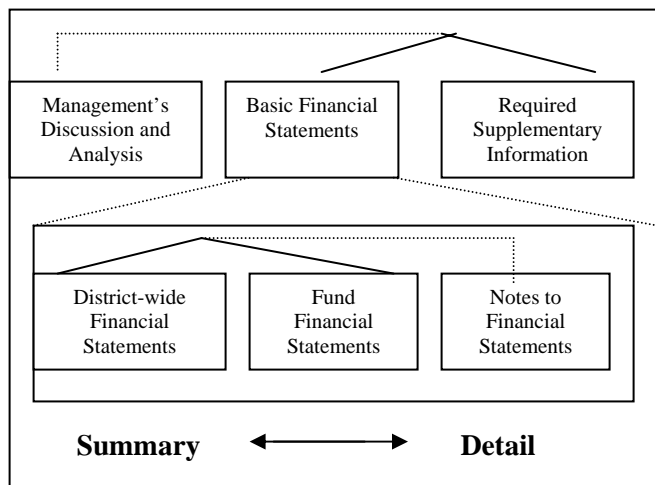
During the 2005-2006 fiscal year the District repaid \$4.4 million of principal from its long-term debt. The District's general fund balance decreased \$24,493. At June 30, 2006, the fund balance of the general fund was \$1,535,895.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

Figure A-1
Organization of
Fowlerville Community Schools' Annual
Financial Report



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

| <p style="text-align: center;">Figure A-2 Major Features of District-Wide and Fund Financial Statements</p> | | | |
|---|--|---|---|
| Scope | District-wide Statements | Fund Financial Statements | |
| | | Governmental Funds | Fiduciary Funds |
| | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance. | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | * Statement of net assets * Statement of activities | * Balance sheet * Statement of revenues, expenditures and changes in fund balances | * Statement of fiduciary net assets * Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term, Fowlerville's funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid |

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- *Governmental funds* - Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* - The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's combined net assets (deficit) was more on June 30, 2006 than the year before, increasing from (\$11,969,791) to (\$12,258,790). One of the major contributors to this is the District's participation in the school bond loan fund (SBLF) which allows the District's debt millage to remain at a lower level (8.34 mills) but requires borrowing from the SBLF to meet principal and interest payments. In 2005-2006 the District borrowed \$3,116,488 from this fund. Interest on the cumulative borrowings was \$217,400 for the year ended June 30, 2006. Once the District's total property valuation grows to sufficient levels, this money will be repaid.

| Table A-3 | | |
|--|-----------------|-----------------|
| Fowlerville Community Schools' Net Assets | | |
| | 2006 | 2005 |
| Current or other assets | \$ 41,189,656 | \$ 56,458,063 |
| Capital assets and other assets | 55,565,918 | 34,896,752 |
| Total assets | 96,755,574 | 91,354,815 |
| Long-term debt outstanding | 91,151,108 | 91,569,237 |
| Other liabilities | 17,863,256 | 11,755,369 |
| Total liabilities | 109,014,364 | 103,324,606 |
| Net assets (deficit): | | |
| Invested in capital assets, net of related debt | (11,679,792) | (12,328,164) |
| Restricted | - | 101,865 |
| Unrestricted | (578,998) | 256,508 |
| Total net assets (deficit) | \$ (12,258,790) | \$ (11,969,791) |

| Table A-4 | | |
|---|--------------|--------------|
| Changes in Fowlerville Community Schools' Net Assets | | |
| | 2006 | 2005 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 1,619,070 | \$ 1,542,273 |
| Federal and state categorical grants | 1,004,175 | 1,100,695 |
| General revenues: | | |
| Property taxes | 6,097,729 | 5,557,882 |
| State aid - unrestricted | 20,148,940 | 19,561,692 |
| Other | 2,065,513 | 1,213,754 |
| Total revenues | 30,935,427 | 28,976,296 |
| Expenses: | | |
| Instruction | 15,520,981 | 14,094,666 |
| Support services | 8,420,978 | 8,208,859 |
| Community services | 637,432 | 727,530 |
| Food services | 1,075,774 | 1,141,660 |
| Athletics | 466,918 | 435,909 |
| Interest on long-term debt | 4,109,682 | 3,820,166 |
| Unallocated depreciation | 992,661 | 992,659 |
| Total expenses | 31,224,426 | 29,421,449 |
| Increase (decrease) in net assets | \$ (288,999) | \$ (445,153) |

District Governmental Activities

The District's financial condition has become relatively stable considering Michigan's uncertain economy.

- In fiscal year 1999 - 2000, the student blended count was 3,103. In six years it has grown to 3,183 or an increase of 80 blended count students. Fowlerville Schools will become School of Choice for the 2006-2007 school year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds:

Fund balance

| | |
|------------------------|---------------|
| General fund | \$ 1,535,895 |
| Capital projects funds | \$ 26,474,192 |
| All other funds | \$ 405,500 |

This is a combined fund balance of \$28,415,587 compared to \$49,496,365 in 2005. The 2006 fund balance decreased by \$21,080,778 mainly due to capital project expenditures.

General Fund and Budget Highlights

During the 2005 - 2006 fiscal year, the original District budget was amended to reflect changes which affected the District.

The initial amendment took place in the fall, once the student count and staff changes had been determined.

Spring amendments took place to more accurately reflect payouts being made to District employees who were retiring, as well as the final State Aid payments to school districts. There was no pro-ratio of the \$6,875 Foundation Allowance during the 2005-2006 school year.

The final amended budget showed an operating loss for 2005-2006.

Overall the difference between the final general fund amended budget and end of the year figures amounted to approximately 1%. We had a decrease in revenues from the final June 2006 Board adopted budget by \$89,768. Expenditures were \$245,849 less than the final approved budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

| Table A-5 Fowlerville Community Schools' Capital Assets | | | | |
|--|----------------------|-------------------------------------|------------------------------------|------------------------------------|
| | Cost | Accumulated Depreciation | 2006 Net Book Value | 2005 Net Book Value |
| Land | \$ 960,000 | \$ | \$ 960,000 | \$ 960,000 |
| Construction in progress | 24,774,398 | | 24,774,398 | 2,791,900 |
| Land improvements | 1,006,955 | 517,611 | 489,344 | 535,942 |
| Buildings and additions | 40,785,984 | 13,155,627 | 27,630,357 | 28,436,801 |
| Machinery and equipment | 2,919,599 | 2,164,866 | 754,733 | 983,209 |
| Transportation equipment | 1,975,503 | 1,553,675 | 421,828 | 617,536 |
| Total | \$ 72,422,439 | \$ 17,391,779 | \$ 55,030,660 | \$ 34,325,388 |

In June 2004, a \$49,350,000 bond issue was passed by the voters. In the summer of 2005, construction began on road ways and parking lots on South campus. Also, Fowlerville High School construction began in September 2005.

The 2007 fiscal year budget anticipates dramatic increases in capital expenditures with the continuation of the District's bond construction plans.

Long-term Debt

At year end the District had over \$95.7 million in general obligation bonds and other long-term debt outstanding. This was an increase of \$49.5 from the amount outstanding at the end of fiscal 2004. The District repaid \$3.3 million in principal during fiscal 2005, but also issued \$52.7 million in new borrowings including the 2004 bond issuance, and the School Bond Loan Fund.

Table A-6
Fowlerville Community Schools
Outstanding Long-Term Debt

| | 2006 | 2005 |
|--|----------------------|----------------------|
| General obligation debts (financed with property taxes) | \$ 85,343,001 | \$ 89,270,270 |
| School loan funds | 8,046,565 | 4,680,223 |
| Other | 2,266,534 | 1,742,857 |
| Total | \$ 95,656,100 | \$ 95,693,350 |

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2006-2007 State Aid for the Foundation allowance will increase \$210 per pupil plus an additional \$23 per pupil as an underfunded district. The continued job loss and high unemployment in Michigan forecasts a cautious future for K-12 school funding.
- The end of fiscal year 2007 will mark the expiration of a one-year teachers' agreement. The contracts will be negotiated between the Board of Education and the custodial bargaining unit in the summer of 2007.
- In 2006-2007, the District anticipates a decrease of students of at least a 44 FTE blended count. The District anticipates enrollment in 2006-2007 will decrease due to a severe downturn in residential construction plus high gas prices. The State's weak economy and fuel costs can have a great effect on District move-ins or students leaving because of their parent's job status.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Fowlerville Community Schools, 735 N. Grand, Fowlerville, MI 48836-0769.

**FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

| | <u>Governmental activities</u> |
|---|---|
| ASSETS | |
| CURRENT ASSETS: | |
| Cash | \$ 3,537,304 |
| Cash - restricted for capital projects | 2,476,205 |
| Investments - restricted for capital projects | 30,912,984 |
| Receivables: | |
| Accounts receivable | 25,508 |
| Other governmental units | 3,801,332 |
| Taxes | 4,417 |
| Agency fund activities | 10,139 |
| Interest - restricted for capital projects | 311,514 |
| Inventories | 19,960 |
| Prepaid expenditures | <u>90,293</u> |
| TOTAL CURRENT ASSETS | <u>41,189,656</u> |
| NONCURRENT ASSETS: | |
| Deferred charges, net of amortization | 535,258 |
| Capital assets | 72,422,439 |
| Less accumulated depreciation | <u>(17,391,779)</u> |
| TOTAL NONCURRENT ASSETS | <u>55,565,918</u> |
| TOTAL ASSETS | <u><u>\$ 96,755,574</u></u> |

See notes to financial statements.

| | Governmental activities |
|--|------------------------------------|
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES: | |
| Accounts payable | \$ 5,767,096 |
| Retainage payable | 1,609,257 |
| Accrued interest | 709,850 |
| Note payable | 3,200,000 |
| Accrued salaries and related items | 1,996,652 |
| Deferred revenue | 75,409 |
| Current portion of long-term obligations | 4,142,504 |
| Current portion of compensated absences and severance benefits | 362,488 |
| TOTAL CURRENT LIABILITIES | 17,863,256 |
| NONCURRENT LIABILITIES: | |
| Noncurrent portion of long-term obligations | 89,577,398 |
| Compensated absences and severance benefits | 1,573,710 |
| TOTAL NONCURRENT LIABILITIES | 91,151,108 |
| TOTAL LIABILITIES | 109,014,364 |
| NET ASSETS (DEFICIT): | |
| Invested in capital assets, net of related debt | (11,679,792) |
| Unrestricted | (578,998) |
| TOTAL NET DEFICIT | (12,258,790) |
| TOTAL LIABILITIES AND NET ASSETS (DEFICIT) | \$ 96,755,574 |

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

| Functions/programs | Expenses | Program revenues | | Governmental activities |
|---|----------------------|----------------------|---------------------|---|
| | | Charges for services | Operating grants | Net (expense) revenue and changes in net assets |
| Governmental activities: | | | | |
| Instruction | \$ 15,520,981 | \$ | \$ 512,628 | \$ (15,008,353) |
| Support services | 8,420,978 | | 142,433 | (8,278,545) |
| Community services | 637,432 | 682,489 | | 45,057 |
| Food services | 1,075,774 | 753,389 | 344,117 | 21,732 |
| Athletics | 466,918 | 183,192 | | (283,726) |
| Interest on long-term debt | 4,109,682 | | 4,997 | (4,104,685) |
| Unallocated depreciation | 992,661 | | | (992,661) |
| Total governmental activities | <u>\$ 31,224,426</u> | <u>\$ 1,619,070</u> | <u>\$ 1,004,175</u> | <u>(28,601,181)</u> |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 1,968,396 |
| Property taxes, levied for debt service | | | | 4,129,333 |
| Net investment earnings | | | | 1,525,590 |
| State sources | | | | 20,148,940 |
| Intermediate district and other revenue | | | | <u>539,923</u> |
| Total general revenues | | | | <u>28,312,182</u> |
| Change in net assets | | | | (288,999) |
| Net deficit, beginning of year | | | | <u>(11,969,791)</u> |
| Net deficit, end of year | | | | <u>\$ (12,258,790)</u> |

FOWLERVILLE COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

| | General fund | Capital projects fund | Other nonmajor governmental funds | Total governmental funds |
|--------------------------|-----------------|--------------------------|--|--------------------------------|
| ASSETS | | | | |
| ASSETS: | | | | |
| Cash | \$ 3,149,022 | \$ 2,476,205 | \$ 388,282 | \$ 6,013,509 |
| Investments | | 30,912,984 | | 30,912,984 |
| Receivables: | | | | |
| Accounts receivable | 17,826 | | 7,682 | 25,508 |
| Other governmental units | 3,801,332 | | | 3,801,332 |
| Due from student funds | 10,139 | | | 10,139 |
| Taxes | 4,417 | | | 4,417 |
| Interest | | 311,514 | | 311,514 |
| Inventories | 3,812 | | 16,148 | 19,960 |
| Prepaid expenditures | 90,176 | | 117 | 90,293 |
| TOTAL ASSETS | \$ 7,076,724 | \$ 33,700,703 | \$ 412,229 | \$ 41,189,656 |

| | | | | |
|------------------------------------|------------|--------------|-------|--------------|
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 149,842 | \$ 5,617,254 | \$ | \$ 5,767,096 |
| Retainage payable | | 1,609,257 | | 1,609,257 |
| Accrued interest | 77,647 | | | 77,647 |
| State aid anticipation note | 3,200,000 | | | 3,200,000 |
| Accrued salaries and related items | 1,996,652 | | | 1,996,652 |
| Deferred revenue | 116,688 | | 6,729 | 123,417 |
| TOTAL LIABILITIES | 5,540,829 | 7,226,511 | 6,729 | 12,774,069 |

| | General fund | Capital projects fund | Other nonmajor governmental funds | Total governmental funds |
|---|-----------------|--------------------------|--|--------------------------------|
| FUND BALANCES: | | | | |
| Reserved for: | | | | |
| Debt service | \$ | \$ | \$ 361,461 | \$ 361,461 |
| Inventories and prepaid expenditures | 93,988 | | 16,265 | 110,253 |
| Total reserved | 93,988 | | 377,726 | 471,714 |
| Designated for subsequent year expenditures | 449,230 | 26,474,192 | | 26,923,422 |
| Unreserved and undesignated | 992,677 | | 27,774 | 1,020,451 |
| TOTAL FUND BALANCES | 1,535,895 | 26,474,192 | 405,500 | 28,415,587 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 7,076,724 | \$ 33,700,703 | \$ 412,229 | \$ 41,189,656 |

| | | | | |
|---|--|--|--------------|-----------------|
| Total Governmental Fund Balances | | | | \$ 28,415,587 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Value of deferred charges for bond issuance costs | | | \$ 613,809 | |
| Accumulated amortization | | | (78,551) | 535,258 |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | | | | |
| The cost of the capital assets is | | | 72,422,439 | |
| Accumulated depreciation is | | | (17,391,779) | 55,030,660 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | | | | |
| Bonds payable | | | | (93,719,902) |
| Compensated absences and severance benefits | | | | (1,936,198) |
| Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid | | | | (632,203) |
| Deferred revenue expected to be collected after September 30th. | | | | |
| Taxes receivable at 6/30/06 | | | | 4,417 |
| Community services receivable at 6/30/06 | | | | 43,591 |
| Net assets (deficit) of governmental activities | | | | \$ (12,258,790) |

FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

| | <u>General fund</u> | <u>Capital projects fund</u> | <u>Other nonmajor governmental funds</u> | <u>Total governmental funds</u> |
|---|---------------------|------------------------------|--|---------------------------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Property taxes | \$ 1,968,848 | \$ | \$ 4,129,333 | \$ 6,098,181 |
| Community services, tuition, food sales and athletic admissions | 638,898 | | 936,581 | 1,575,479 |
| Investment income | 108,621 | 1,371,887 | 45,082 | 1,525,590 |
| Other | 114,703 | | | 114,703 |
| Total local revenues | 2,831,070 | 1,371,887 | 5,110,996 | 9,313,953 |
| State sources | 20,383,079 | | 72,169 | 20,455,248 |
| Federal sources | 409,836 | | 288,031 | 697,867 |
| Incoming transfers and other transactions | 425,220 | | | 425,220 |
| Total revenues | 24,049,205 | 1,371,887 | 5,471,196 | 30,892,288 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 11,565,532 | | | 11,565,532 |
| Added needs | 2,973,237 | | | 2,973,237 |
| Adult and community education | 294,062 | | | 294,062 |
| Total instruction | 14,832,831 | | | 14,832,831 |
| Support services: | | | | |
| Pupil | 851,072 | | | 851,072 |
| Instructional staff | 687,046 | | | 687,046 |
| General administration | 490,623 | | | 490,623 |
| School administration | 1,443,695 | | | 1,443,695 |
| Business | 420,139 | | | 420,139 |
| Operation and maintenance | 2,301,680 | | | 2,301,680 |
| EXPENDITURES (Concluded): | | | | |
| Current (Concluded): | | | | |
| Support services: | | | | |
| Transportation | \$ 1,412,669 | \$ | \$ | \$ 1,412,669 |
| Central | 517,117 | | | 517,117 |
| Total support services | 8,124,041 | | | 8,124,041 |
| Athletics | | | 444,213 | 444,213 |
| Community services | 637,432 | | | 637,432 |
| Food service | | | 1,060,574 | 1,060,574 |
| Capital outlay | | 21,982,498 | | 21,982,498 |
| Outgoing transfers and other transactions | 102,653 | 74,877 | | 177,530 |
| Debt service: | | | | |
| Principal retirement | | | 3,903,086 | 3,903,086 |
| Interest and fiscal charges | | | 3,927,349 | 3,927,349 |
| Total expenditures | 23,696,957 | 22,057,375 | 9,335,222 | 55,089,554 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 352,248 | (20,685,488) | (3,864,026) | (24,197,266) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from school bond loan fund | | | 3,116,488 | 3,116,488 |
| Operating transfers in | | | 376,746 | 376,746 |
| Operating transfers out | (376,746) | | | (376,746) |
| Total other financing sources (uses) | (376,746) | | 3,493,234 | 3,116,488 |
| NET CHANGE IN FUND BALANCES | (24,498) | (20,685,488) | (370,792) | (21,080,778) |
| FUND BALANCES: | | | | |
| Beginning of year | 1,560,393 | 47,159,680 | 776,292 | 49,496,365 |
| End of year | \$ 1,535,895 | \$ 26,474,192 | \$ 405,500 | \$ 28,415,587 |

See notes to financial statements.

**FOWLerville COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds \$ (21,080,778)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. However, in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

| | |
|----------------------|-------------|
| Depreciation expense | (1,277,226) |
| Capital outlay | 21,982,498 |

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

| | |
|--|-----------|
| Accrued interest payable beginning of the year | 674,427 |
| Accrued interest payable end of the year | (632,203) |

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long-term debt and related items is as follows:

| | |
|---|-------------|
| Proceeds of debt | (3,116,488) |
| Payments on debt | 3,995,767 |
| Long-term interest on school bond loan fund | (249,854) |
| Deferred amount on bond refunding | (7,049) |
| Amortization expense - issuance costs | (36,106) |
| Amortization premium | 42,318 |

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

| | |
|---|---------|
| Deferred revenue beginning of the year - governmental funds | (4,869) |
| Deferred revenue end of the year - governmental funds | 48,008 |

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure due in the governmental funds:

| | |
|--|-------------|
| Accrued compensated absences and accumulated severance benefit beginning of the year | 1,308,754 |
| Accrued compensated absences and accumulated severance benefit end of the year | (1,936,198) |

| | |
|--|---------------------|
| Change in net assets of governmental activities | \$ (288,999) |
|--|---------------------|

**FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

| | <u>Private purpose fund</u> | <u>Agency</u> |
|---------------------------------------|---------------------------------|-------------------|
| ASSETS | | |
| Cash | \$ 113,797 | \$ 395,686 |
| Interest receivable | | 2,910 |
| | <u>113,797</u> | <u>398,596</u> |
| Total assets | <u>\$ 113,797</u> | <u>\$ 398,596</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Due to student groups | \$ | \$ 388,457 |
| Accounts payable - primary government | | 10,139 |
| | <u></u> | <u>398,596</u> |
| Total liabilities | | 398,596 |
| Net assets: | | |
| Reserved for scholarships | 113,797 | |
| | <u>113,797</u> | <u>398,596</u> |
| | <u>\$ 113,797</u> | <u>\$ 398,596</u> |

**FOWLERVILLE COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2006**

| | <u>Private purpose fund</u> |
|---------------------------------|---------------------------------|
| ADDITIONS: | |
| Interest earnings | \$ 3,880 |
| DEDUCTIONS: | |
| Scholarships awarded | <u>500</u> |
| CHANGE IN NET ASSETS | 3,380 |
| NET ASSETS: | |
| Beginning of year | <u>110,417</u> |
| End of year | <u><u>\$ 113,797</u></u> |

FOWLerville COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fowlerville Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Fowlerville Community Schools (the "District") is governed by the Fowlerville Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *capital project fund* accounts for the revenue and expenditures that are related to the net proceeds from the issuance of the general obligation bonds that are going to be used to erect, furnish and equip additions to and remodel, re-equip and refurnish school district buildings, acquire and install educational technology improvements, construct and equip a new maintenance building, and develop and improve sites, playgrounds, and athletic fields and facilities.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The Capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the 2004 capital projects bond activity since inception of the fund through the current fiscal year:

| | <u>2004 Bond</u> |
|--------------------------------------|----------------------|
| Revenues and other financing sources | <u>\$ 51,323,467</u> |
| Expenditures | <u>\$ 24,849,275</u> |

The above revenue amount includes net bond proceeds of \$49,185,778.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported on the District financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools* and No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

1. Cash and equivalents include amounts in demand deposits and certificates of deposit. (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

| Fund | Mills |
|---|---------|
| General Fund - Non-homestead | 18.0000 |
| Debt service fund - Homestead and non-homestead | 8.3400 |

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”.

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

| | |
|-------------------------------|--------------|
| Buildings and additions | 50 years |
| Furniture and other equipment | 5 - 20 years |

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District’s policies generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The Deputy Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments:

| Investment type | Fair value | Weighted average maturity (years) | Standard & Poor's rating | % |
|--------------------------|-------------------|--|---|----------|
| U.S. Government Agencies | \$ 30,912,984 | 0.4862 | AAA | 100% |

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30th, the District did not have investments in commercial paper and corporate bonds.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. 100% of the District's investments are in Fixed Income Government Securities.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$6,005,086 of the District's bank balance of \$6,205,086 was exposed to custodial credit risk because it was uninsured and uncollateralized. The bank balance includes approximately \$4.4 million of certificates of deposits and savings accounts. The carrying amount is \$6,013,509.

Fiduciary fund balances are not included in the above balances. As of June 30, 2006, \$317,917 of the Fiduciary fund's bank balance of \$510,335 was exposed to custodial credit risk because it was uninsured and uncollateralized. This carrying amount is \$509,483.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

| | Balance July 1, 2005 | Additions | Deletions | Balance June 30, 2006 |
|--------------------------------------|-------------------------|---------------|-----------|--------------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 960,000 | \$ | \$ | \$ 960,000 |
| Construction in progress | 2,791,900 | 21,982,498 | | 24,774,398 |
| Total assets not being depreciated | 3,751,900 | 21,982,498 | | 25,734,398 |
| Other capital assets: | | | | |
| Land improvements | 1,006,955 | | | 1,006,955 |
| Buildings and additions | 40,785,984 | | | 40,785,984 |
| Machinery and equipment | 2,919,599 | | | 2,919,599 |
| Transportation equipment | 2,063,085 | | 87,582 | 1,975,503 |
| Subtotal | 46,775,623 | | 87,582 | 46,688,041 |
| Accumulated depreciation: | | | | |
| Land improvements | 471,013 | 46,598 | | 517,611 |
| Buildings and additions | 12,349,183 | 806,444 | | 13,155,627 |
| Machinery and equipment | 1,936,390 | 228,476 | | 2,164,866 |
| Transportation equipment | 1,445,549 | 195,708 | 87,582 | 1,553,675 |
| Total accumulated depreciation | 16,202,135 | 1,277,226 | 87,582 | 17,391,779 |
| Net capital assets being depreciated | 30,573,488 | (1,277,226) | | 29,296,262 |
| Net governmental capital assets | \$ 34,325,388 | \$ 20,705,272 | \$ | \$ 55,030,660 |

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS (Concluded)

Depreciation expense was charged to programs of the District as follows:

Governmental activities:

| | |
|------------------|----------------|
| Athletics | \$ 22,705 |
| Food service | 15,200 |
| Support services | 246,660 |
| Unallocated | <u>992,661</u> |

| | |
|-------------------------------|----------------------------|
| Total governmental activities | <u><u>\$ 1,277,226</u></u> |
|-------------------------------|----------------------------|

NOTE 5 - RECEIVABLES

Receivables at June 30, 2006 consist of the following:

| | |
|---------------------------|----------------------------|
| | <u>General fund</u> |
| Other governmental units: | |
| State aid | \$ 3,689,552 |
| Federal revenue | 68,189 |
| Other | <u>43,591</u> |
| | <u><u>\$ 3,801,332</u></u> |

Amounts due from other governmental units include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2006, the District has a note payable outstanding of \$3,200,000. The note has an interest rate of 2.92% and matures August 18, 2006. The note is secured by the full faith and credit of the District as well as pledged state aid. Subsequent to year-end, the District set aside an additional amount to pay off the note principal and related interest expense. The District has approved a note payable of \$3,500,000 for the fiscal year ending June 30, 2007.

| Balance June 30, 2005 | Additions | Payments | Balance June 30, 2006 |
|--------------------------|--------------|--------------|--------------------------|
| \$ 3,300,000 | \$ 3,200,000 | \$ 3,300,000 | \$ 3,200,000 |

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2006:

| | Accumulated compensated absences | Accumulated severance benefits | Bonds and other debt | Total |
|--------------------------|--|--------------------------------------|-------------------------|---------------|
| Balance, July 1, 2005 | \$ 253,811 | \$ 1,054,942 | \$ 94,384,596 | \$ 95,693,349 |
| Additions | 15,673 | 949,622 | 3,366,342 | 4,331,637 |
| Deletions | | (337,850) | (4,031,036) | (4,368,886) |
| Balance, June 30, 2006 | 269,484 | 1,666,714 | 93,719,902 | 95,656,100 |
| Less current portion | 22,734 | 339,754 | 4,142,504 | 4,504,992 |
| Total due after one year | \$ 246,750 | \$ 1,326,960 | \$ 89,577,398 | \$ 91,151,108 |

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

Bonds payable at June 30, 2006 is comprised of the following issues:

| | |
|---|-----------------|
| 1995 serial bonds due in annual installments of \$85,000 to \$95,000 through May 1, 2010 with interest from 5.10% to 5.90% | \$ 370,000 |
| 1996 serial bonds due in annual installments of \$555,000 to \$625,000 through May 1, 2007 with interest from 4.65% to 6.50% | 625,000 |
| 1999 refunding serial bonds due in annual installments of \$90,000 to \$910,000 through May 1, 2026 with interest from 3.10% to 4.75% | 16,420,000 |
| 2001 refunding serial bonds due in annual installments of \$485,000 to \$525,000 through May 1, 2009 with interest from 4.00% to 4.13% | 1,495,000 |
| 2003 refunding serial bonds due in annual installments of \$340,000 to \$420,000 through May 1, 2020 with interest from 2.00% to 4.35% | 5,360,000 |
| 2003 refunding serial bonds due in annual installments of \$1,342,000 to \$1,728,000 through May 1, 2014 with interest at 3.318% | 12,390,000 |
| 2004 serial bonds due in annual installments of \$875,000 to \$2,750,000 through May 1, 2034 with interest from 2.25% to 5.00% | 48,150,000 |
| Plus: premium on bond refunding | 631,682 |
| Less: deferred loss on bond refunding | <u>(98,681)</u> |
| Total general obligation debt | 85,343,001 |
| Limited obligation (Durant) bonds due in annual installments of \$11,086 to \$55,350 through May 2013 with an interest rate of 4.76%. Certain State Aid payments have been pledged as security. | <u>135,229</u> |
| Total bonded debt | 85,478,230 |

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

| | |
|---|-----------------------------|
| Borrowings from the State of Michigan under the School Bond Loan and School Loan Revolving Funds Programs, including interest. Interest at June 30, 2006 was 4.5% for the School Bond Loan Fund and 6.845% for the School Loan Revolving Funds. | \$ 8,046,565 |
| Installment notes payable due in annual installments of \$49,465 to \$51,292 through April 1, 2008 with an interest rate of 3.6951% | 100,757 |
| Installment notes payable due in annual installments of \$46,428 to \$47,922 through April 21, 2008 with an interest rate of 3.22% | <u>94,350</u> |
| Total bonds and other debt | 93,719,902 |
| Obligation under contract for compensated absences | 269,484 |
| Obligation under contract for severance benefits | 717,092 |
| Obligation under contract for voluntary separation plan | 904,260 |
| Obligation for compensated absences and insurance as a result of the voluntary separation plan | <u>45,362</u> |
| Total general long-term debt | <u><u>\$ 95,656,100</u></u> |

The District had entered into voluntary termination benefit arrangements with certain employees. The original agreement provides for a total payment to each individual of \$60,000. This amount is paid over three equal payments of \$20,000 annually. There are currently fourteen employees entitled to future payments. The liability has been recorded at the face amount, plus accrued FICA, as the discounted present value approximates face amount of the liability.

The Durant bonds, including interest, were issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2006, \$22,390,000 of bonds outstanding are considered defeased.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize debt outstanding as of June 30, 2006, including interest payments of \$52,960,533 are as follows:

| Year ending June 30, | Principal | Interest | Amounts payable |
|----------------------------------|----------------------|----------------------|-----------------------|
| 2007 | \$ 4,142,504 | \$ 3,791,972 | \$ 7,934,476 |
| 2008 | 4,267,380 | 3,640,048 | 7,907,428 |
| 2009 | 4,314,746 | 3,491,772 | 7,806,518 |
| 2010 | 3,963,352 | 3,336,156 | 7,299,508 |
| 2011 | 3,995,350 | 3,203,924 | 7,199,274 |
| 2012 - 2016 | 17,497,004 | 13,664,831 | 31,161,835 |
| 2017 - 2021 | 13,545,000 | 10,296,028 | 23,841,028 |
| 2022 - 2026 | 13,865,000 | 6,970,802 | 20,835,802 |
| 2027 - 2031 | 11,625,000 | 3,762,500 | 15,387,500 |
| 2032 - 2034 | 7,925,000 | 802,500 | 8,727,500 |
| | 85,140,336 | 52,960,533 | 138,100,869 |
| Premium on bond refunding | 631,682 | | 631,682 |
| Deferred loss on bond refunding | (98,681) | | (98,681) |
| Due to school bond loan fund | 8,046,565 | | 8,046,565 |
| Accumulated compensated absences | 269,484 | | 269,484 |
| Accumulated severance benefits | 1,666,714 | | 1,666,714 |
| | <u>\$ 95,656,100</u> | <u>\$ 52,960,533</u> | <u>\$ 148,616,633</u> |

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 were zero.

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

FOWLerville COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005, was 14.87% of payroll through September 30, 2005 and increased to 16.34% effective October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2006, 2005 and 2004 were \$2,271,000, \$2,049,000 and \$1,791,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

NOTE 11 - TRANSFERS

The general fund transferred \$261,021 to the athletics fund, \$4,340 to the food service fund and \$111,385 to the debt service fund. The transfer to the athletic fund and the food service fund were to subsidize operations. The transfer to the debt service fund was to pay the debt service principal and interest payments as they become due. The 1991 debt service fund transferred \$115,702 to the 1996 debt service fund. The transfer from the 1991 debt service fund to the 1996 debt service fund was made to pay the debt service principal and interest payments of the 1996 debt service fund as they become due.

NOTE 12 - OPERATING LEASES

The District leases copiers under an operating lease agreement expiring June 30, 2009. Minimum rental commitments for all non-cancelable operating leases are as follows:

| <u>Year ending</u> | |
|--------------------|-------------------|
| 2007 | \$ 34,930 |
| 2008 | 34,930 |
| 2009 | <u>34,930</u> |
| | <u>\$ 104,790</u> |

**FOWLERVILLE COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District. The District has approximately \$26,400,000 committed to complete its capital projects building program.

REQUIRED SUPPLEMENTARY INFORMATION

[illegible]

ADDITIONAL INFORMATION

**FOWLERVILLE COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

| | <u>Special revenue</u> | <u>Debt service</u> | <u>Total nonmajor governmental funds</u> |
|--|----------------------------|--------------------------|--|
| ASSETS | | | |
| ASSETS: | | | |
| Cash | \$ 26,821 | \$ 361,461 | \$ 388,282 |
| Receivables: | | | |
| Accounts receivable | 7,682 | | 7,682 |
| Inventories | 16,148 | | 16,148 |
| Prepaid expenditures | 117 | | 117 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u><u>\$ 50,768</u></u> | <u><u>\$ 361,461</u></u> | <u><u>\$ 412,229</u></u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES: | | | |
| Deferred revenue | \$ 6,729 | \$ | \$ 6,729 |
| | <u>44,039</u> | <u>361,461</u> | <u>405,500</u> |
| FUND BALANCES | | | |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 50,768</u></u> | <u><u>\$ 361,461</u></u> | <u><u>\$ 412,229</u></u> |

**FOWLERVILLE COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006**

| | <u>Special revenue</u> | <u>Debt service</u> | <u>Total nonmajor governmental funds</u> |
|---|----------------------------|---------------------|--|
| REVENUES: | | | |
| Local sources: | | | |
| Property taxes | \$ | \$ 4,129,333 | \$ 4,129,333 |
| Food sales and athletic admissions | 936,581 | | 936,581 |
| Investment income | <u>2,767</u> | <u>42,315</u> | <u>45,082</u> |
| Total local sources | 939,348 | 4,171,648 | 5,110,996 |
| State sources | 56,086 | 16,083 | 72,169 |
| Federal sources | <u>288,031</u> | | <u>288,031</u> |
| Total revenues | <u>1,283,465</u> | <u>4,187,731</u> | <u>5,471,196</u> |
| EXPENDITURES: | | | |
| Athletics | 444,213 | | 444,213 |
| Food service | 1,060,574 | | 1,060,574 |
| Debt service: | | | |
| Principal retirement | | 3,903,086 | 3,903,086 |
| Interest and fiscal charges | | <u>3,927,349</u> | <u>3,927,349</u> |
| Total expenditures | <u>1,504,787</u> | <u>7,830,435</u> | <u>9,335,222</u> |
| DEFICIENCY OF REVENUES OVER EXPENDITURES | <u>(221,322)</u> | <u>(3,642,704)</u> | <u>(3,864,026)</u> |
| OTHER FINANCING SOURCES: | | | |
| Proceeds from school bond loan fund and bonds | | 3,116,488 | 3,116,488 |
| Operating transfers in | <u>265,361</u> | <u>111,385</u> | <u>376,746</u> |
| Total other financing sources | <u>265,361</u> | <u>3,227,873</u> | <u>3,493,234</u> |
| NET CHANGE IN FUND BALANCES | 44,039 | (414,831) | (370,792) |
| FUND BALANCES: | | | |
| Beginning of year | | <u>776,292</u> | <u>776,292</u> |
| End of year | <u>\$ 44,039</u> | <u>\$ 361,461</u> | <u>\$ 405,500</u> |

**FOWLERVILLE COMMUNITY SCHOOLS
SPECIAL REVENUE FUND
BALANCE SHEET
SCHOOL LUNCH FUND
JUNE 30, 2006
(with comparative totals for June 30, 2005)**

| | <u>2006</u> | <u>2005</u> |
|-------------------------------------|-------------------------|-------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 26,821 | \$ 8,521 |
| Receivables: | | |
| Accounts receivable | 7,682 | 6,616 |
| Due from other funds | | 27,599 |
| Inventory - food service | 16,148 | 19,880 |
| Prepaid expenditures | <u>117</u> | <u>5,370</u> |
| | <u><u>\$ 50,768</u></u> | <u><u>\$ 67,986</u></u> |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Due to general fund | \$ | \$ 61,683 |
| Deferred revenue | <u>6,729</u> | <u>6,303</u> |
| Total liabilities | 6,729 | 67,986 |
| Fund balance | <u>44,039</u> | |
| Total liabilities and fund balance | <u><u>\$ 50,768</u></u> | <u><u>\$ 67,986</u></u> |

FOWLERVILLE COMMUNITY SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)

| | School lunch fund | Athletics fund | Total | |
|--|----------------------------------|---------------------------|--------------|-------------|
| | | | 2006 | 2005 |
| REVENUES: | | | | |
| Sale of lunches and milk | \$ 753,389 | \$ | \$ 753,389 | \$ 753,370 |
| Federal aid | 288,031 | | 288,031 | 269,742 |
| State aid | 56,086 | | 56,086 | 54,987 |
| Interest and miscellaneous | 2,767 | | 2,767 | 1,370 |
| Athletic events | | 183,192 | 183,192 | 123,834 |
| Total revenues | 1,100,273 | 183,192 | 1,283,465 | 1,203,303 |
| EXPENDITURES: | | | | |
| Salaries and wages | 336,993 | 252,265 | 589,258 | 595,004 |
| Employee benefits | 201,727 | 83,693 | 285,420 | 296,132 |
| Supplies and other expenses | 69,312 | 108,255 | 177,567 | 213,551 |
| Food costs | 443,658 | | 443,658 | 417,270 |
| Capital outlay | 883 | | 883 | 5,018 |
| Indirect costs | 8,001 | | 8,001 | 8,023 |
| Total expenditures | 1,060,574 | 444,213 | 1,504,787 | 1,534,998 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 39,699 | (261,021) | (221,322) | (331,695) |
| OTHER FINANCING SOURCES: | | | | |
| Operating transfer in from general fund | 4,340 | 261,021 | 265,361 | 326,849 |
| NET CHANGE IN FUND BALANCES | 44,039 | | 44,039 | (4,846) |
| FUND BALANCES, beginning of year | | | | 4,846 |
| FUND BALANCES, end of year | \$ 44,039 | \$ | \$ 44,039 | \$ |

FOWLerville COMMUNITY SChOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006
(with comparative totals for June 30, 2005)

| | Debt service funds | | | | | | | Totals | | |
|---|---------------------|-------|-----------|-----------|-----------|-----------|--------------|------------|------------|------------|
| ASSETS | 1991 refinancing | 1995 | 1996 | 1999 | 2001 | 2003 | 2003 SBLF | 2004 | 2006 | 2005 |
| Cash | \$ | \$ 14 | \$ 29,064 | \$ 30,113 | \$ 34,517 | \$ 33,882 | \$ 103,274 | \$ 130,597 | \$ 361,461 | \$ 776,292 |
| | | | | | | | | | | |
| FUND BALANCES | | | | | | | | | | |
| Fund balances, reserved for debt service | \$ | \$ 14 | \$ 29,064 | \$ 30,113 | \$ 34,517 | \$ 33,882 | \$ 103,274 | \$ 130,597 | \$ 361,461 | \$ 776,292 |

FOWLerville COMMUNITY SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006
(with comparative totals for the year ended June 30, 2005)

| | Debt service funds | | | | | | | | | Totals | |
|--|---------------------|-----------|------------|------------|------------|------------|--------------|--------------|--------|--------------|--------------|
| | 1991 refinancing | 1995 | 1996 | 1999 | 2001 | 2003 | 2003 SBLF | 2004 | Durant | 2006 | 2005 |
| REVENUES: | | | | | | | | | | | |
| Local sources: | | | | | | | | | | | |
| Current taxes | \$ | \$ | \$ 327,999 | \$ 345,598 | \$ 394,100 | \$ 389,019 | \$ 1,163,815 | \$ 1,508,802 | \$ | \$ 4,129,333 | \$ 3,814,287 |
| Interest on investments | 899 | 3 | 6,148 | 5,036 | 4,107 | 3,439 | 12,047 | 10,636 | | 42,315 | 19,587 |
| | 899 | 3 | 334,147 | 350,634 | 398,207 | 392,458 | 1,175,862 | 1,519,438 | | 4,171,648 | 3,833,874 |
| State sources | | | | | | | | | 16,083 | 16,083 | |
| Total revenues | 899 | 3 | 334,147 | 350,634 | 398,207 | 392,458 | 1,175,862 | 1,519,438 | 16,083 | 4,187,731 | 3,833,874 |
| EXPENDITURES: | | | | | | | | | | | |
| Redemption of bonds | | 85,000 | 555,000 | 90,000 | 525,000 | 420,000 | 1,342,000 | 875,000 | 11,086 | 3,903,086 | 2,275,617 |
| Interest on bonds | | 25,960 | 76,700 | 751,423 | 81,656 | 207,020 | 455,628 | 2,320,276 | 4,997 | 3,923,660 | 3,944,529 |
| Other debt retirement expenses | | 425 | 1,072 | 657 | 545 | 524 | 266 | 200 | | 3,689 | 2,306 |
| Total expenditures | | 111,385 | 632,772 | 842,080 | 607,201 | 627,544 | 1,797,894 | 3,195,476 | 16,083 | 7,830,435 | 6,222,452 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | | | | | | | | |
| | 899 | (111,382) | (298,625) | (491,446) | (208,994) | (235,086) | (622,032) | (1,676,038) | | (3,642,704) | (2,388,578) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | | | | |
| Proceeds from school bond loan fund | | | 135,322 | 247,664 | 167,491 | 191,771 | 568,107 | 1,806,133 | | 3,116,488 | 2,655,409 |
| Operating transfers | | 111,385 | | | | | | | | 111,385 | 110,705 |
| Interfund transfer | (115,702) | | 115,702 | | | | | | | | |
| Total other financing sources (uses) | (115,702) | 111,385 | 251,024 | 247,664 | 167,491 | 191,771 | 568,107 | 1,806,133 | | 3,227,873 | 2,766,114 |
| NET CHANGE IN FUND BALANCES | | | | | | | | | | | |
| | (114,803) | 3 | (47,601) | (243,782) | (41,503) | (43,315) | (53,925) | 130,095 | | (414,831) | 377,536 |
| FUND BALANCES, beginning of year | | | | | | | | | | | |
| | 114,803 | 11 | 76,665 | 273,895 | 76,020 | 77,197 | 157,199 | 502 | | 776,292 | 398,756 |
| FUND BALANCES, end of year | | | | | | | | | | | |
| | \$ | \$ 14 | \$ 29,064 | \$ 30,113 | \$ 34,517 | \$ 33,882 | \$ 103,274 | \$ 130,597 | \$ | \$ 361,461 | \$ 776,292 |

**FOWLERVILLE COMMUNITY SCHOOLS
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006
(with comparative totals for June 30, 2005)**

| | Private purpose | Agency funds | Totals | |
|--|--------------------|-------------------|-------------------|-------------------|
| | | | 2006 | 2005 |
| ASSETS | | | | |
| Cash | \$ 113,797 | \$ 395,686 | \$ 509,483 | \$ 418,190 |
| Interest receivable | | 2,910 | 2,910 | |
| Total assets | <u>113,797</u> | <u>398,596</u> | <u>512,393</u> | <u>418,190</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Due to student groups | \$ | \$ 388,457 | \$ 388,457 | \$ 302,504 |
| Due to other funds | | 10,139 | 10,139 | 5,269 |
| Total liabilities | | 398,596 | 398,596 | 307,773 |
| Fund balances: | | | | |
| Reserved for scholarships | <u>113,797</u> | | <u>113,797</u> | <u>110,417</u> |
| | <u>\$ 113,797</u> | <u>\$ 398,596</u> | <u>\$ 512,393</u> | <u>\$ 418,190</u> |

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006

| | Balance 7/1/2005 | Additions | Deductions | Balance 6/30/2006 |
|---------------------------------|---------------------|-----------|------------|----------------------|
| Allshouse Scholarship | \$ 24,101 | \$ 1,915 | \$ (2,000) | \$ 24,016 |
| Athletic Baseball | 1,505 | 5,596 | (4,556) | 2,545 |
| Athletic Boys Basketball | 3 | 124 | | 127 |
| Athletic Cross Country | 248 | | (124) | 124 |
| Athletic Girls Basketball | 644 | 200 | (71) | 773 |
| Athletic Scholarship/Bierstetel | 312 | 210 | (522) | |
| Athletic - soccer internal | 25 | 1,294 | (611) | 708 |
| Athletic - softball internal | 1 | 368 | (368) | 1 |
| Athletic resale | 4,347 | 8,413 | (5,061) | 7,699 |
| Beagle Scholarship | 1,142 | 30 | (500) | 672 |
| Board Scholarship | 1,237 | 1,500 | (500) | 2,237 |
| Bus Employees | | 937 | (937) | |
| Cash over and under | 159 | 52 | | 211 |
| Cheerleaders | 23 | 5,515 | (5,175) | 363 |
| Class of 2005 | 2,746 | 288 | (374) | 2,660 |
| Class of 2006 | 1,717 | 6,137 | (7,856) | (2) |
| Class of 2007 | 5,522 | 13,382 | (9,099) | 9,805 |
| Class of 2008 | 10,247 | 810 | (1,765) | 9,292 |
| Class of 2009 | | 14,126 | (5,258) | 8,868 |
| Commander | 6,637 | 18,425 | (7,976) | 17,086 |
| Dare | 19,145 | 35,039 | (31,805) | 22,379 |
| Drug Dog | 501 | | (309) | 192 |
| Elementary - Golf Outing | 700 | 7,387 | (8,087) | |
| Equipment sale | 9,032 | | | 9,032 |
| FFA | 1,098 | | | 1,098 |
| FIVA | 73 | | | 73 |
| Fowlerville MAFHK | 638 | | | 638 |
| Rose Hamlin Scholarship | | 1,000 | (500) | 500 |
| Michael Hanks Scholarship | 1,000 | 1,000 | (1,000) | 1,000 |
| Harmon Scholarship | 500 | 500 | (500) | 500 |

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006

| | Balance 7/1/2005 | Additions | Deductions | Balance 6/30/2006 |
|-------------------------------|---------------------|------------|--------------|----------------------|
| High School Activity | \$ 96,075 | \$ 58,875 | \$ (59,743) | \$ 95,207 |
| High School Band | 2,712 | 9,150 | (6,609) | 5,253 |
| Student Council (HS) | 491 | 135 | (397) | 229 |
| Jr. High Activity | 9,819 | 20,102 | (17,451) | 12,470 |
| Jr. High Band | 239 | 301 | (263) | 277 |
| Jr. High Choir | 5,103 | 26,373 | (29,466) | 2,010 |
| Jr. High Resource | 4,490 | 7,554 | (8,361) | 3,683 |
| Jr. High Science | 1,126 | 1,876 | (2,105) | 897 |
| Jr. High Student Council/Govt | 876 | 3,015 | (1,307) | 2,584 |
| Jr. High Talent Show | 843 | 1,163 | (126) | 1,880 |
| Jr. High Track Board | 853 | 369 | (663) | 559 |
| Jr. High Yearbook | 6,834 | 4,819 | (4,005) | 7,648 |
| Kovacs Donation | 1,529 | | | 1,529 |
| Kreeger Activity | 13,344 | 16,060 | (15,222) | 14,182 |
| Kreeger Book Fair | 6,171 | 7,877 | (5,623) | 8,425 |
| Kreeger Counseling | 1,431 | | (179) | 1,252 |
| Kreeger Family Scholarship | 40 | 570 | (500) | 110 |
| Kreeger Instruction | 444 | | (25) | 419 |
| Kreeger KTPN | | 76,597 | (49,216) | 27,381 |
| Little Glad Center | 1,441 | 17,220 | (15,909) | 2,752 |
| Lift A Thon | 3,919 | 15,036 | (17,774) | 1,181 |
| Middle School Activity | 26,788 | 83,132 | (101,328) | 8,592 |
| Middle School Activity | | 4,519 | | 4,519 |
| MS Student Government | 2,770 | 3,675 | (4,890) | 1,555 |
| Middle School PTG | | 41,360 | (23,865) | 17,495 |
| Middle School Yearbook | 3,655 | 4,606 | (5,969) | 2,292 |
| National Honor Society | 1,145 | 1,951 | (1,863) | 1,233 |
| Photo Account | 337 | | | 337 |
| Rec-Community Ed | 256 | 20,382 | (19,064) | 1,574 |
| Rec-Pepsi | 1,049 | 1,159 | (1,384) | 824 |

FOWLERVILLE COMMUNITY SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006

| | Balance 7/1/2005 | Additions | Deductions | Balance 6/30/2006 |
|---------------------------------|---------------------|-------------------|---------------------|----------------------|
| Remembrance Fund | \$ 1,278 | \$ 2,000 | \$ (577) | \$ 2,701 |
| Smith Elementary Activity | 9,433 | 10,224 | (11,053) | 8,604 |
| Smith -1st Grade Camp | 161 | | (161) | |
| Smith PTC | | 53,291 | (32,459) | 20,832 |
| Spanish Club | 775 | 4,967 | (5,641) | 101 |
| Unallocated interest (checking) | | 831 | | 831 |
| Unallocated interest (CD) | | 2,910 | | 2,910 |
| Transfer | 242 | | (242) | |
| VanGorder Scholarship | 3,000 | | (2,000) | 1,000 |
| Wrestling Club | 532 | | | 532 |
| | <u>\$ 302,504</u> | <u>\$ 626,347</u> | <u>\$ (540,394)</u> | <u>\$ 388,457</u> |

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1995 DEBT
YEAR ENDED JUNE 30, 2006

Bond issue for the purpose of renovating the School District Building to help conserve energy costs.

| Interest due | | Principal due May 1, | Debt service requirement for fiscal year | |
|------------------|------------------|-------------------------|---|-------------------|
| November 1, | May 1, | | June 30, | Amount |
| \$ 10,642 | \$ 10,642 | \$ 90,000 | 2007 | \$ 111,284 |
| 8,123 | 8,123 | 90,000 | 2008 | 106,246 |
| 5,557 | 5,557 | 95,000 | 2009 | 106,114 |
| 2,803 | 2,803 | 95,000 | 2010 | 100,606 |
| <u>\$ 27,125</u> | <u>\$ 27,125</u> | <u>\$ 370,000</u> | | <u>\$ 424,250</u> |

The above bonds have interest rates from 5.10% to 5.90%.

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1996 DEBT
YEAR ENDED JUNE 30, 2006

Bond issue dated November 26, 1996 for the purpose of erecting, furnishing and equipping a new middle school, renovations to the elementary and high school, and developing and improving technology, and improving outdoor athletic and physical education facilities. The maturity amount of the original issue was \$21,455,000 of which \$15,525,000 was defeased upon the issuance of 1999 refunding bonds.

| Interest due | | Principal due May 1, | Debt service requirement for fiscal year | |
|------------------|------------------|-------------------------|---|-------------------|
| November 1, | May 1, | | June 30, | Amount |
| <u>\$ 20,313</u> | <u>\$ 20,313</u> | <u>\$ 625,000</u> | 2007 | <u>\$ 665,626</u> |

The above bonds have interest rates from 4.65% to 6.50%.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1999 DEBT
YEAR ENDED JUNE 30, 2006

Bond issue dated March 4, 1999 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated November 21, 1996 which are due and payable in the years 1997 through 2026.

| Interest due | | Principal due May 1, | Debt service requirement for fiscal year | |
|---------------------|---------------------|-------------------------|---|----------------------|
| November 1, | May 1, | | June 30, | Amount |
| \$ 373,934 | \$ 373,934 | \$ 95,000 | 2007 | \$ 842,868 |
| 372,010 | 372,010 | 795,000 | 2008 | 1,539,020 |
| 355,911 | 355,911 | 890,000 | 2009 | 1,601,822 |
| 337,444 | 337,444 | 910,000 | 2010 | 1,584,888 |
| 317,879 | 317,879 | 905,000 | 2011 | 1,540,758 |
| 297,969 | 297,969 | 900,000 | 2012 | 1,495,938 |
| 277,719 | 277,719 | 895,000 | 2013 | 1,450,438 |
| 257,581 | 257,581 | 885,000 | 2014 | 1,400,162 |
| 237,669 | 237,669 | 880,000 | 2015 | 1,355,338 |
| 217,869 | 217,869 | 875,000 | 2016 | 1,310,738 |
| 198,181 | 198,181 | 865,000 | 2017 | 1,261,362 |
| 178,719 | 178,719 | 860,000 | 2018 | 1,217,438 |
| 158,294 | 158,294 | 855,000 | 2019 | 1,171,588 |
| 137,988 | 137,988 | 850,000 | 2020 | 1,125,976 |
| 117,800 | 117,800 | 845,000 | 2021 | 1,080,600 |
| 97,731 | 97,731 | 835,000 | 2022 | 1,030,462 |
| 77,900 | 77,900 | 830,000 | 2023 | 985,800 |
| 58,188 | 58,188 | 825,000 | 2024 | 941,376 |
| 38,594 | 38,594 | 815,000 | 2025 | 892,188 |
| 19,238 | 19,238 | 810,000 | 2026 | 848,476 |
| <u>\$ 4,128,618</u> | <u>\$ 4,128,618</u> | <u>\$ 16,420,000</u> | | <u>\$ 24,677,236</u> |

The above bonds have interest rates from 3.10% to 4.75%

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2001 DEBT
YEAR ENDED JUNE 30, 2006

Bond issue dated June 28, 2001 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated May 21, 1992 which are due and payable in the years 1993 through 2009.

| Interest due | | Principal due May 1, | Debt service requirement for fiscal year | |
|------------------|------------------|-------------------------|---|---------------------|
| November 1, | May 1, | | June 30, | Amount |
| \$ 30,328 | \$ 30,328 | \$ 510,000 | 2007 | \$ 570,656 |
| 20,128 | 20,128 | 500,000 | 2008 | 540,256 |
| 10,003 | 10,003 | 485,000 | 2009 | 505,006 |
| <u>\$ 60,459</u> | <u>\$ 60,459</u> | <u>\$ 1,495,000</u> | | <u>\$ 1,615,918</u> |

The above bonds have interest rates from 4.00% to 4.13%

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2003 DEBT
YEAR ENDED JUNE 30, 2006

Bond issue dated March 14, 2003 for the purpose of refunding a portion of the School District's outstanding school building and site bonds dated August 29, 1991 which were refunded in 1993 which are due and payable in the years 2004 through 2020.

| Interest due | | Principal due May 1, | Debt service requirement for fiscal year | |
|-------------------|-------------------|-------------------------|---|---------------------|
| November 1, | May 1, | | June 30, | Amount |
| \$ 99,310 | \$ 99,310 | \$ 410,000 | 2007 | \$ 608,620 |
| 94,698 | 94,698 | 395,000 | 2008 | 584,396 |
| 89,266 | 89,266 | 385,000 | 2009 | 563,532 |
| 83,251 | 83,251 | 425,000 | 2010 | 591,502 |
| 75,813 | 75,813 | 415,000 | 2011 | 566,626 |
| 68,032 | 68,032 | 410,000 | 2012 | 546,064 |
| 59,832 | 59,832 | 400,000 | 2013 | 519,664 |
| 51,832 | 51,832 | 385,000 | 2014 | 488,664 |
| 44,132 | 44,132 | 375,000 | 2015 | 463,264 |
| 36,632 | 36,632 | 365,000 | 2016 | 438,264 |
| 29,332 | 29,332 | 355,000 | 2017 | 413,664 |
| 22,054 | 22,054 | 345,000 | 2018 | 389,108 |
| 14,939 | 14,939 | 355,000 | 2019 | 384,878 |
| 7,394 | 7,394 | 340,000 | 2020 | 354,788 |
| <u>\$ 776,517</u> | <u>\$ 776,517</u> | <u>\$ 5,360,000</u> | | <u>\$ 6,913,034</u> |

The above bonds have interest rates from 2.00% to 4.35%.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
2003 SBLF REFUNDING DEBT
YEAR ENDED JUNE 30, 2006

The 2003 School Bond Loan Refunding Bond dated September 30, 2003 for the purpose of refunding a portion of the School District's School Bond Loan Fund.

| Interest due | | Principal due May 1, | Debt service requirement for fiscal year | |
|-------------------|-------------------|-------------------------|---|----------------------|
| November 1, | May 1, | | June 30, | Amount |
| \$ 205,550 | \$ 205,550 | \$ 1,380,000 | 2007 | \$ 1,791,100 |
| 182,656 | 182,656 | 1,426,000 | 2008 | 1,791,312 |
| 158,999 | 158,999 | 1,472,000 | 2009 | 1,789,998 |
| 134,578 | 134,578 | 1,520,000 | 2010 | 1,789,156 |
| 109,361 | 109,361 | 1,570,000 | 2011 | 1,788,722 |
| 83,315 | 83,315 | 1,621,000 | 2012 | 1,787,630 |
| 56,423 | 56,423 | 1,673,000 | 2013 | 1,785,846 |
| 28,668 | 28,668 | 1,728,000 | 2014 | 1,785,336 |
| <u>\$ 959,550</u> | <u>\$ 959,550</u> | <u>\$ 12,390,000</u> | | <u>\$ 14,309,100</u> |

The above bonds have an interest rate of 3.318%.

FOWLerville COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 2004 DEBT
YEAR ENDED JUNE 30, 2006

Bond issue dated June 14, 2004 for the purpose of erecting, furnishing and equipping additions to and remodeling, re-equipping and refurbishing school district buildings, acquiring and installing educational technology improvements, constructing and equipping a new maintenance building, and developing and improving sites, playgrounds, and athletic fields and facilities dated August 17, 2004 which are due and payable in the years 2006 through 2034.

| Interest due | | Principal due May 1, | Debt service requirement for fiscal year | |
|----------------------|----------------------|-------------------------|---|----------------------|
| May 1, | November 1, | | June 30, | Amount |
| \$ 1,150,294 | \$ 1,150,294 | \$ 925,000 | 2007 | \$ 3,225,588 |
| 1,138,731 | 1,138,732 | 950,000 | 2008 | 3,227,463 |
| 1,124,481 | 1,124,482 | 975,000 | 2009 | 3,223,963 |
| 1,108,637 | 1,108,637 | 1,000,000 | 2010 | 3,217,274 |
| 1,088,637 | 1,088,637 | 1,050,000 | 2011 | 3,227,274 |
| 1,067,638 | 1,067,637 | 1,100,000 | 2012 | 3,235,275 |
| 1,047,563 | 1,047,562 | 1,150,000 | 2013 | 3,245,125 |
| 1,025,713 | 1,025,712 | 1,200,000 | 2014 | 3,251,425 |
| 1,002,313 | 1,002,312 | 1,275,000 | 2015 | 3,279,625 |
| 970,438 | 970,437 | 1,350,000 | 2016 | 3,290,875 |
| 935,000 | 935,000 | 1,425,000 | 2017 | 3,295,000 |
| 897,594 | 897,594 | 1,500,000 | 2018 | 3,295,188 |
| 858,219 | 858,219 | 1,575,000 | 2019 | 3,291,438 |
| 816,875 | 816,875 | 1,650,000 | 2020 | 3,283,750 |
| 775,625 | 775,625 | 1,725,000 | 2021 | 3,276,250 |
| 732,500 | 732,500 | 1,800,000 | 2022 | 3,265,000 |
| 687,500 | 687,500 | 1,875,000 | 2023 | 3,250,000 |
| 640,625 | 640,625 | 1,950,000 | 2024 | 3,231,250 |
| 591,875 | 591,875 | 2,025,000 | 2025 | 3,208,750 |
| 541,250 | 541,250 | 2,100,000 | 2026 | 3,182,500 |
| 488,750 | 488,750 | 2,175,000 | 2027 | 3,152,500 |
| 434,375 | 434,375 | 2,250,000 | 2028 | 3,118,750 |
| 378,125 | 378,125 | 2,325,000 | 2029 | 3,081,250 |
| 320,000 | 320,000 | 2,400,000 | 2030 | 3,040,000 |
| 260,000 | 260,000 | 2,475,000 | 2031 | 2,995,000 |
| 198,125 | 198,125 | 2,550,000 | 2032 | 2,946,250 |
| 134,375 | 134,375 | 2,625,000 | 2033 | 2,893,750 |
| 68,750 | 68,750 | 2,750,000 | 2034 | 2,887,500 |
| <u>\$ 20,484,008</u> | <u>\$ 20,484,005</u> | <u>\$ 48,150,000</u> | | <u>\$ 89,118,013</u> |

The above bonds have interest rates from 2.25% to 5.00%

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS - 1998 DURANT
YEAR ENDED JUNE 30, 2006**

\$229,022 Durant Bond - issued on November 24, 1998

| Principal due May 15, | Interest due May 15, | Debt service requirement for fiscal year | |
|--------------------------|-------------------------|---|-------------------|
| | | June 30, | Amount |
| \$ 11,611 | \$ 4,469 | 2007 | \$ 16,080 |
| 12,166 | 3,916 | 2008 | 16,082 |
| 12,746 | 3,337 | 2009 | 16,083 |
| 13,352 | 2,730 | 2010 | 16,082 |
| 55,350 | 20,544 | 2011 | 75,894 |
| 14,653 | 1,429 | 2012 | 16,082 |
| 15,351 | 731 | 2013 | 16,082 |
| <u>\$ 135,229</u> | <u>\$ 37,156</u> | | <u>\$ 172,385</u> |

This bond is not subject to redemption prior to maturity by the School District and the School District hereby covenants that it will not issue any other bonds or obligations for the purpose of refunding this bond. The interest rates payable on this bond, is 4.76%, may be adjusted in the sole discretion of the Authority provided that no interest rate shall exceed the maximum rate permitted by law and no interest rate adjustment which causes the total interest payable on this bond to increase shall be permitted.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL BOND LOAN AND SCHOOL LOAN REVOLVING FUNDS
YEAR ENDED JUNE 30, 2006

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

| Year ended June 30, | Loan proceeds | Interest expense | Loan balance (net change) |
|------------------------|---------------------|---------------------|------------------------------|
| 1996 | \$ 1,561,544 | \$ 164,664 | \$ 1,726,208 |
| 1997 | 1,316,776 | 111,431 | 1,428,207 |
| 1998 | 2,225,414 | 209,835 | 2,435,249 |
| 1999 | 930,028 | 318,987 | 1,249,015 |
| 2000 | 1,692,500 | 385,914 | 2,078,414 |
| 2001 | 1,679,527 | 475,004 | 2,154,531 |
| 2002 | 1,426,547 | 488,901 | 1,915,448 |
| 2003 | 1,009,418 | 455,201 | 1,464,619 |
| 2004 refinance payment | (11,806,245) | (2,274,395) | (14,080,640) |
| 2004 | 1,453,524 | 123,819 | 1,577,343 |
| 2005 | 2,650,529 | 81,300 | 2,731,829 |
| 2006 | 3,116,488 | 249,854 | 3,366,342 |
| Totals June 30, 2005 | <u>\$ 7,256,050</u> | <u>\$ 790,515</u> | <u>\$ 8,046,565</u> |

Balance at June 30, 2006

| | | |
|----------------------------|-------|---------------------|
| School Bond Loan Fund | 4.50% | \$ 4,871,588 |
| School Loan Revolving Fund | 6.85% | <u>3,174,977</u> |
| | | <u>\$ 8,046,565</u> |

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2006**

\$238,824 installment notes payable dated April 1, 2003 for bus purchase.

| Principal due April 1, | Interest due April 1, | Debt service requirement for fiscal year | |
|---------------------------|--------------------------|---|-------------------|
| | | June 30, | Amount |
| \$ 49,465 | \$ 3,723 | 2007 | \$ 53,188 |
| 51,292 | 1,895 | 2008 | 53,187 |
| <u>\$ 100,757</u> | <u>\$ 5,618</u> | | <u>\$ 106,375</u> |

The above notes have an interest rate of 3.6951%.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
YEAR ENDED JUNE 30, 2006**

\$184,230 installment notes payable dated July 22, 2004 for bus purchase.

| Principal due April 21, | Interest due April 21, | Debt service requirement | |
|----------------------------|---------------------------|--------------------------|------------------|
| | | June 30, | Amount |
| \$ 46,428 | \$ 3,038 | 2007 | \$ 49,466 |
| 47,922 | 1,543 | 2008 | 49,465 |
| <u>\$ 94,350</u> | <u>\$ 4,581</u> | | <u>\$ 98,931</u> |

The above notes have an interest rate of 3.22%

FOWLERVILLE COMMUNITY SCHOOLS

**ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133**

YEAR ENDED JUNE 30, 2006

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Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
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Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

August 2, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fowlerville Community Schools as of and for the year ended June 30, 2006, which collectively comprise Fowlerville Community Schools' basic financial statements and have issued our report thereon dated August 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fowlerville Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education
Fowlerville Community Schools

August 2, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fowlerville Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control over financial reporting that we have reported to management of Fowlerville Community Schools in a separate letter dated August 2, 2006.

This report is intended solely for the information and use of the board of education, management and the U.S. Department of Education and Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

August 2, 2006

Compliance

We have audited the compliance of Fowlerville Community Schools with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Fowlerville Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Fowlerville Community Schools' management. Our responsibility is to express an opinion on Fowlerville Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fowlerville Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Fowlerville Community Schools' compliance with those requirements.

In our opinion, Fowlerville Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

August 2, 2006

Internal Control Over Compliance

The management of Fowlerville Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fowlerville Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fowlerville Community Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 2, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Fowlerville Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamey, Costeniser & Ellis, P.C.

Certified Public Accountants

FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

| Federal grantor/pass-through grantor program title | Federal CFDA number | Pass- through grantor's number | Award amount | Accrued (deferred) revenue 6/30/2005 | Prior year expenditures (memorandum only) | Current year receipts (cash basis) | Current year expenditures | Accrued (deferred) revenue 6/30/2006 |
|---|---------------------------|---|-----------------|---|--|--|---------------------------------|---|
| <u>U.S. Department of Agriculture:</u> | | | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | | |
| Child nutrition cluster: | | | | | | | | |
| National School Lunch Program - Section 4 | 10.555 | 051950 | \$ 6,440 | \$ | \$ 5,986 | \$ 6,440 | \$ 6,440 | \$ |
| National School Lunch Program - Section 4 | | 051960 | 19,487 | | 17,925 | 19,487 | 19,487 | |
| National School Lunch Program - Section 11 | | 061950 | 44,293 | | 42,544 | 44,293 | 44,293 | |
| National School Lunch Program - Section 11 | | 061960 | 140,873 | | 122,114 | 140,873 | 140,873 | |
| | | | 211,093 | | 188,569 | 211,093 | 211,093 | |
| National School Lunch Program - Breakfast | 10.553 | | | | | | | |
| National School Lunch Program - Breakfast | | 051970 | 3,261 | | 3,251 | 3,261 | 3,261 | |
| National School Lunch Program - Breakfast | | 061970 | 37,319 | | 29,643 | 37,319 | 37,319 | |
| | | | 40,580 | | 32,894 | 40,580 | 40,580 | |
| Total child nutrition cluster | | | 251,673 | | 221,463 | 251,673 | 251,673 | |
| National School Lunch Program - Commodities: | | | | | | | | |
| Entitlement | 10.550 | | 40,442 | | 30,742 | 24,249 | 24,249 | |
| Bonus | | | 12,109 | | 16,831 | 12,109 | 12,109 | |
| | | | 52,551 | | 47,573 | 36,358 | 36,358 | |
| Child Care Food Program-CCFP Meals | 10.558 | 51920 | 195 | | | 195 | 195 | |
| | | 61920 | 269 | | | 269 | 269 | |
| | | | 464 | | | 464 | 464 | |
| Total U.S. Department of Agriculture | | | 304,688 | | 269,036 | 288,495 | 288,495 | |

The accompanying notes are an integral part of this schedule.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

| Federal grantor/pass-through grantor program title | Federal CFDA number | Pass- through grantor's number | Award amount | Accrued (deferred) revenue 6/30/2005 | Prior year expenditures (memorandum only) | Current year receipts (cash basis) | Current year expenditures | Accrued (deferred) revenue 6/30/2006 |
|---|---------------------------|---|-----------------|---|--|--|---------------------------------|---|
| <u>U.S. Department of Education:</u> | | | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | | |
| Title I | 84.010 | 041530-0405 | \$ 25,953 | \$ 10,013 | \$ 25,953 | \$ 10,013 | \$ - | \$ - |
| | | 051530-0405 | 206,784 | 49,705 | 199,961 | 56,528 | 6,823 | |
| | | 051530-0506 | 15,320 | | | 11,545 | 15,320 | 3,775 |
| | | 061530-0506 | 222,104 | | | 192,949 | 212,236 | 19,287 |
| | | | <u>470,161</u> | <u>59,718</u> | <u>225,914</u> | <u>271,035</u> | <u>234,379</u> | <u>23,062</u> |
| Title V LEA Allocation | 84.298 | 040250-0405 | 1,451 | 1,074 | 1,451 | 1,074 | | |
| | | 050250-0405 | 290 | 90 | 290 | 90 | | |
| | | 050250-0506 | 1,627 | | | 1,627 | 1,627 | |
| | | 060250-0506 | 1,297 | | | 1,120 | 1,122 | 2 |
| | | | <u>4,665</u> | <u>1,164</u> | <u>1,741</u> | <u>3,911</u> | <u>2,749</u> | <u>2</u> |
| Technology literacy challenge grants | 84.318 | 044290-0405 | 4,058 | 560 | 4,058 | 560 | | |
| | | 054290-0506 | 1,345 | | | 1,345 | 1,345 | |
| | | 064290-0506 | 4,143 | | | 1,886 | 1,886 | |
| | | | <u>9,546</u> | <u>560</u> | <u>4,058</u> | <u>3,791</u> | <u>3,231</u> | |
| Improving teacher quality | 84.367 | | | | | | | |
| | | 040520-0405 | 14,974 | 5,467 | 14,974 | 5,467 | | |
| | | 050520-0405 | 77,042 | 28,301 | 72,070 | 33,273 | 4,972 | |
| | | 050520-0506 | 24,565 | | | 20,937 | 24,565 | 3,628 |
| | | 060520-0506 | 100,469 | | | 73,304 | 87,591 | 14,287 |
| | | | <u>217,050</u> | <u>33,768</u> | <u>87,044</u> | <u>132,981</u> | <u>117,128</u> | <u>17,915</u> |
| Passed through the Livingston Educational Service Agency IDEA (Special Ed) | 84.027A | 050450 | 100,000 | 50,500 | 100,000 | 50,500 | | |

The accompanying notes are an integral part of this schedule.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

| Federal grantor/pass-through grantor program title | Federal CFDA number | Pass- through grantor's number | Award amount | Accrued (deferred) revenue 6/30/2005 | Prior year expenditures (memorandum only) | Current year receipts (cash basis) | Current year expenditures | Accrued (deferred) revenue 6/30/2006 |
|--|---------------------------|---|-----------------|---|--|--|---------------------------------|---|
| U.S. Department of Education (Continued): | | | | | | | | |
| Passed through Michigan Department of Education: | | | | | | | | |
| Capacity Building Grant (Special Ed) | 84.027A | | | | | | | |
| Project number 2004-2005 | | 50490 | \$ 6,764 | \$ 197 | \$ 5,686 | \$ 197 | \$ - | \$ - |
| Transition Grant (Special Ed) | 84.027A | | | | | | | |
| Project 2004-2005 | | 050490-ts | 6,000 | 4,941 | 4,941 | 4,941 | | |
| Project 2005-2006 | | 060490-ts | 6,000 | | | | 5,982 | 5,982 |
| | | | 12,000 | 4,941 | 4,941 | 4,941 | 5,982 | 5,982 |
| Total Special Education Cluster | | | 118,764 | 55,638 | 110,627 | 55,638 | 5,982 | 5,982 |
| Passed through the Livingston Educational Service Agency | | | | | | | | |
| Safe and Drug Free Schools | 84.186 | | | | | | | |
| Project number 2004-2005 | | 52860 | 11,513 | 2,011 | 11,513 | 2,011 | | |
| Project number 2005-2006 | | 62860 | 11,202 | | | 6,593 | 8,079 | 1,486 |
| | | | 22,715 | 2,011 | 11,513 | 8,604 | 8,079 | 1,486 |
| Vocational Education - Basic Grant to State | 84.048 | | | | | | | |
| Perkins 2004-2005 | | 53520 | 17,772 | 6,690 | 16,461 | 6,690 | | |
| Perkins 2005-2006 | | 63520 | 22,420 | | | 8,867 | 22,420 | 13,553 |
| | | | 40,192 | 6,690 | 16,461 | 15,557 | 22,420 | 13,553 |
| Tech-Prep Education | | | | | | | | |
| Project 2005-2006 | 84.243 | 63540 | 1,769 | | | 1,769 | 1,769 | |
| Passed through the Howell Public Schools | | | | | | | | |
| Adult Education and Family Literacy Act 2004-2005 | 84.002A | | 7,158 | 4,405 | 7,158 | 5,182 | 777 | |
| Adult Education and Family Literacy Act 2005-2006 | | | 6,189 | | | | 6,189 | 6,189 |
| | | | 13,347 | 4,405 | 7,158 | 5,182 | 6,966 | 6,189 |
| Total U.S. Department of Education | | | 898,209 | 163,954 | 464,516 | 498,468 | 402,703 | 68,189 |

The accompanying notes are an integral part of this schedule.

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

| Federal grantor/pass-through grantor program title | Federal CFDA number | Pass- through grantor's number | Award amount | Accrued (deferred) revenue 6/30/2005 | Prior year expenditures (memorandum only) | Current year receipts (cash basis) | Current year expenditures | Accrued (deferred) revenue 6/30/2006 |
|--|---------------------------|---|---------------------|---|--|--|---------------------------------|---|
| <u>U.S. Department of Homeland Security:</u> | | | | | | | | |
| Passed through Michigan Department of State Police: 2003 State Homeland Grant Program Part II | 97.004 | | \$ 6,669 | \$ - | \$ - | \$ 6,669 | \$ 6,669 | \$ - |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 1,209,566</u> | <u>\$ 163,954</u> | <u>\$ 733,552</u> | <u>\$ 793,632</u> | <u>\$ 697,867</u> | <u>\$ 68,189</u> |

The accompanying notes are an integral part of this schedule.

FOWLerville COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Fowlerville Community Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. CFDA (#10.553 and #10.555) were audited as the major programs, representing 36% of expenditures. The District qualifies for low risk auditee status.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

| | |
|----------------------------------|--------------------------|
| General fund | \$ 409,836 |
| Other nonmajor governmental fund | <u>288,031</u> |
| Subtotal | <u><u>\$ 697,867</u></u> |

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Results

Financial Statements

| | | | |
|---|-------------------|----------------------------|--|
| Type of auditors' report issued: | Unqualified | | |
| Material weakness(es) identified: | <u> </u> Yes | <u> X </u> No | |
| Reportable condition(s) identified that are not considered to be material weaknesses? | <u> </u> Yes | <u> X </u> None reported | |
| Noncompliance material to financial statements noted? | <u> </u> Yes | <u> X </u> No | |

Federal Awards

| | | | |
|--|-------------------|----------------------------|--|
| Internal control over major programs: | | | |
| Material weakness(es) identified: | <u> </u> Yes | <u> X </u> No | |
| Reportable condition(s) identified that are not considered to be material weakness(es)? | <u> </u> Yes | <u> X </u> None reported | |
| Type of auditors' report issued on compliance for major programs: | Unqualified | | |
| Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? | <u> </u> Yes | <u> X </u> No | |
| Identification of major programs: | | | |

| CFDA Number(s) | Name of Federal Program or Cluster |
|-------------------|------------------------------------|
| 10.555 and 10.553 | Child Nutrition Cluster |

| | |
|--|-----------------------------------|
| Dollar threshold used to distinguish between type A and Type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | <u> X </u> Yes <u> </u> No |

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**FOWLERVILLE COMMUNITY SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2006**

There were no prior year audit findings for the year ended June 30, 2005.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 2, 2006

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

In planning and performing our audit of the financial statements of Fowlerville Community Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 2, 2006, on the financial statements of Fowlerville Community Schools.

Prior Year Comments

New Rules for §403(B) Plans

Final regulations have not yet been finalized.

Current Year Comments

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (Overspending your budget by line item).
- Ending the fiscal year with a deficit (negative fund balance).
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a District's actual revenues were less than budgeted revenues and, at the same time, depleted the District fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there may be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the District's current budget procedures are adequate.

Cash Management-Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the District within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during FY 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management. We suggest the District request funds on a reimbursement basis in order to ensure compliance with the cash management requirements.

Bonds

For all bonds issued after May 1, 1994, a separate interim audit must be completed for each individual series of a bond authorization prior to the issuance of the next series. This interim audit must be completed within 120 days after completion of all projects and filed immediately with the Department of Treasury. This requirement is pursuant to Section 1351a(2) of Act 451 of the Public Acts of 1976. The management of the District should contact us with information as to the completion of all capital projects meeting this requirement so we can perform our audit procedures in a timely manner.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Fowlerville Community Schools
Fowlerville, Michigan

5

August 2, 2006

This report is intended solely for the information and use of Fowlerville Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mama, Costeniser & Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Racek
Robert E. Miller, Jr.
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Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 2, 2006

To the Fowlerville Finance Committee
Fowlerville Community Schools
Fowlerville, Michigan

We have audited the financial statements of Fowlerville Community Schools for the year ended June 30, 2006, and have issued our report thereon dated August 2, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Fowlerville Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Fowlerville Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Fowlerville Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Fowlerville Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Fowlerville Community Schools' compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fowlerville Community Schools are described in Note 1 to the financial statements. We noted no transactions entered into by Fowlerville Community Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout; the balance reported for compensated absences was approximately \$270,000 and accumulated severance benefits were approximately \$1,700,000. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements as a whole.

Certain amounts included in capital assets have estimated based on an outside appraisal company. Certain allocations on the statement of activities allocating revenue between instruction and support services have been used in preparing the statements.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Fowlerville Community Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Fowlerville Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Fowlerville Community Schools' financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Fowlerville Community Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Finance Committee, the Board of Education, management, and federal awarding agencies and pass through entities of Fowlerville Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Mamer, Costeniser & Ellis, P.C." in a cursive script.